



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 10/15/2003

GAIN Report #BR3017

Brazil

Retail Food Sector

Report

2003

Approved by:

Ronald P. Verdonk, Director ATO Sao Paulo

Prepared by:

Fabiana Borges da Fonseca, Agricultural Marketing Specialist

Report Highlights: This report provides an overview of Brazil's retail sector which is the primary food distribution player in the market. U.S. exporters who wish to enter the market need to understand how this key channel operates and how it handles purchasing.

Includes PSD changes: No
Includes Trade Matrix: No
Sao Paulo [BR3] , BR

I. Market Summary

Brazil, like other developing economies, is vulnerable to exchange rate oscillations, and large foreign capital inflows and outflows put intense pressure on the exchange rate. If investors lose confidence, the flows register a downward trend, depreciating the local currency, which leads investors to limit lending, therefore, the cost of money increases. Finding a way to reduce dependence on foreign capital seems to be the remedy; however, for the foreseeable future, Brazil will continue to rely, in part, on foreign investment. For now, the Brazilian economic and political outlook is guardedly optimistic. Brazil's new President, Luiz Inacio Lula da Silva, known as Lula and who assumed power in January 2003, did not start his term by reverting to his more radical roots and instead has maintained much of the economic program of his predecessor, Fernando Henrique Cardoso. In addition, Lula has shown an admirable ability to press forward with reforms in the Brazilian Congress, which at least in the short run bodes is more likely to ensure growth and expand tax revenues.

The slowdown in economic growth in 2002 and into 2003 was in part due to uncertainties with the new government, impacting the exchange rate and the official interest rate - SELIC - which equalizes interest rates applied in the local market. The depreciation of the local currency had a strong impact on Brazil's imports. The dollar in January 2002 was trading at US\$1=R\$2.60 while in December 2002 the exchange rate reached US\$1=R\$3.70, while the SELIC climbed from 19 percent to 25 percent in the same year.

Economic Indicators

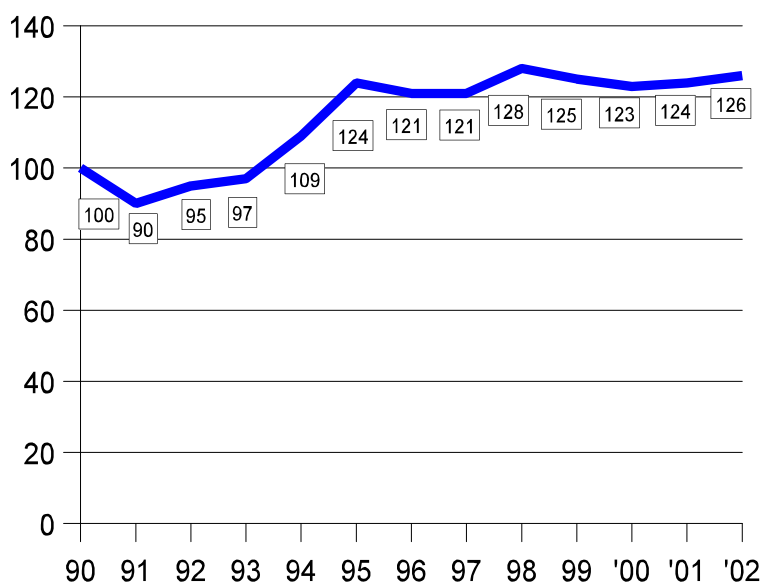
	1998	1999	2000	2001	2002	2003*
GDP Growth (%)	0.1	0.9	4.0	1.5	1.5	1.0
Inflation (%) (IPCA/IBGE))	1.7	8.9	6.0	7.7	12.5	11.9
Average Exchange Rate (R\$/US\$)	1.16	1.81	1.83	2.35	2.96	3.00
Total Exports (US\$ billion)	51.1	48.1	55.0	58.2	59.6	66.0
Total Imports (US\$ billion)	57.5	49.2	55.7	55.5	55.3	50.0

Source:

- < Brazilian Ministry of Development, Industry and Commerce (MDIC)/Secretariat of Foreign Trade (SECEX) trade databases (1998-2002)
- < Brazilian Institute of Geography and Statistics (IBGE) (1998-2002)
- < Brazilian Central Bank trade data
- < Current trend analysis
- < * Projections for 2003 is based on Economic Research Institute and Foundation (FIPE) forecasts

For 2002, the Brazilian retail sector was valued at R\$79.8 billion, with 10.1 percent growth in nominal terms and growth of 1.5 percent in real terms, applying the average IPCA as a deflator. This data further indicates that the retail sector accounts for about 6 percent of total GDP, the aggregated value of which, according to the Brazilian Institute of Geography and Statistics (IBGE), totaled R\$1.32 trillion. Since the implementation of the Real Plan in 1994 (economic measures taken by the former president, Fernando Henrique Cardoso, to bring down inflation), the Brazilian retail sector, despite external and internal turbulence, has shown a considerable degree of stability.

Retail Sector Gross Sales Index

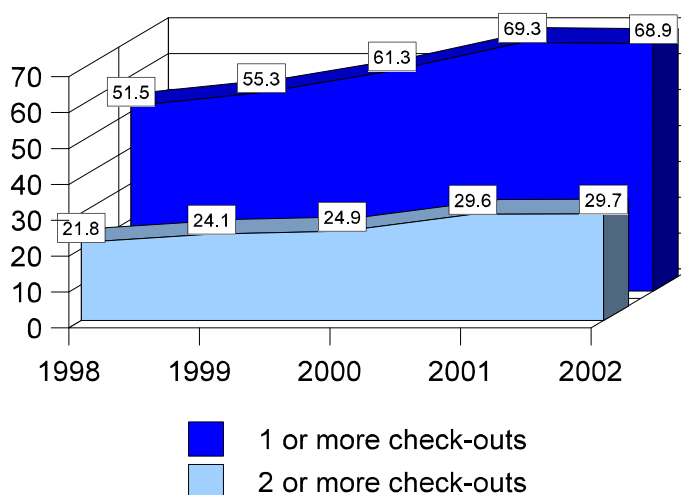


Source: ABRAS/AC Nielsen 2003

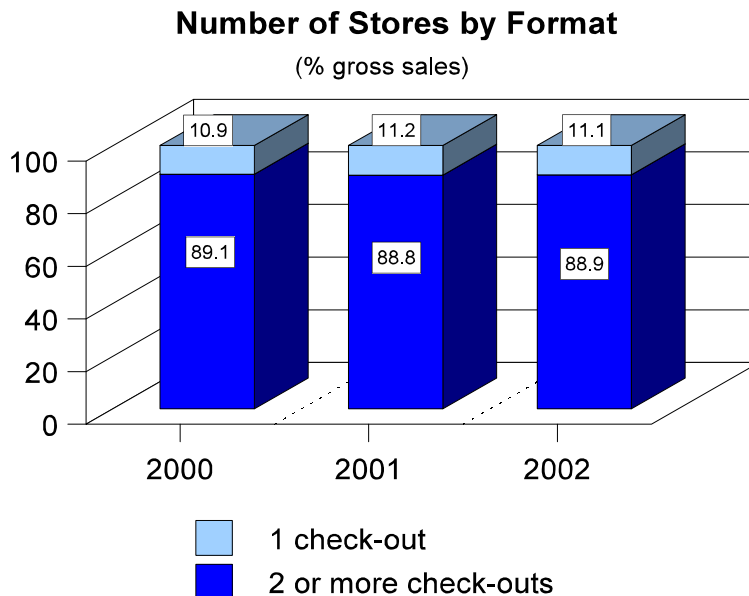
As of 2002, the retail industry consisted of 68,907 stores with one or more check-outs, which represents a slight decrease of 0.7 percent compared to 2001. Of the total number of outlets, 43 percent are stores with more than two check-outs, this category increased 0.3 percent in 2002, while stores with one check-out decreased 1.28 percent.

Growth Trend per Number of Stores

(in thousands)



Source: ABRAS/AC Nielsen 2003



Source: ABRAS/AC Nielsen 2003

After the Real Plan's implementation, a rapid development of the retail sector was followed by concentration in the industry. During the mid-to-late nineties the market witnessed an intense level of acquisitions. However, since 1998 the move to greater retail industry concentration has come to a standstill. Today, the two leading companies, Pao de Acucar and Carrefour, represent 27 percent of market share, while the top five retailers retain 39 percent and the top ten, 45 percent. This scenario reflects structural changes achieved by the Real Plan. While hypermarkets are today a growing segment in terms of how products are retailed, prior to 1994, the dependence of Brazilian consumers importance of hypermarkets was even more pronounced, as Brazilian consumers were predisposed to purchase large quantities as a way to overcome the impact of inflation. Once inflation was brought under control, consumers changed their behavior and new patterns were established, pushing investments into other formats.

According to ABRAS, The Brazilian Supermarket Association, stores up to 250 square meters are the current trend. This model represented 16.3 percent of stores in 2001 and jumped to 19.3 percent in 2002. On average, the number of products marketed by these stores more than doubled from 2001 to 2002, rising from 1,159 to 3,605 items, on average. Again, this highlights new purchasing patterns: Brazilian consumers are no longer willing to travel long distances to shop. They visit stores more frequently and are inclined to store fewer products than they used to during high inflation periods. In this scenario, large retailers have developed strategies to maintain the hypermarket setup and also expand small/medium size stores.

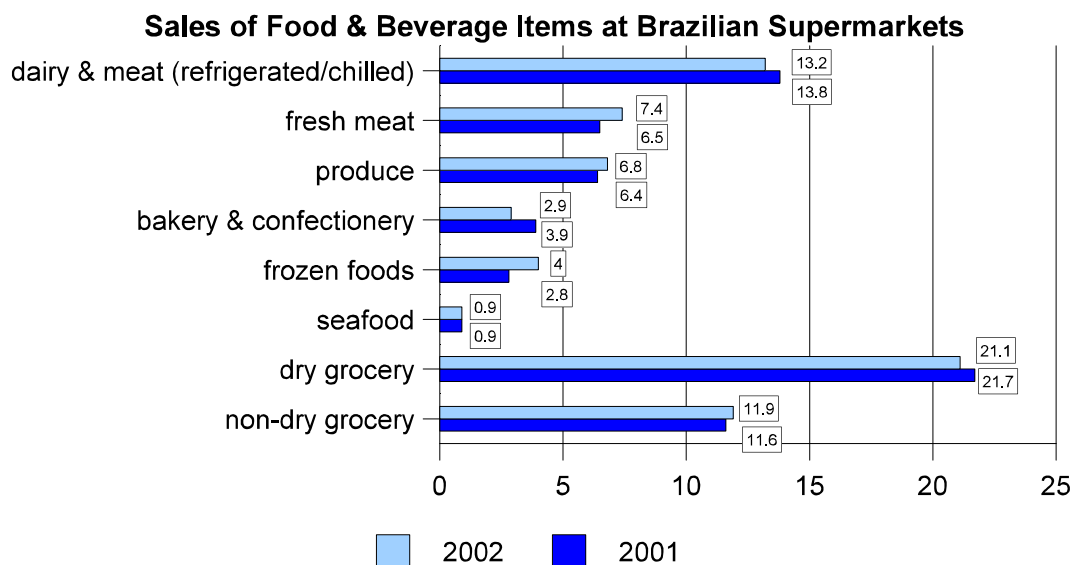
Stores by Size

Sales Area	number of stores		average number of food and beverage items		average number of check-outs	
	2001	2002	2001	2002	2001	2002
up to 250 m ²	588	1,032	1,101	3,381	2	2
251 to 1,000 m ²	1,420	1,375	6,068	6,595	9	7
1,001 to 2,500 m ²	962	986	10,640	9,801	15	21
2,501 to 5,000 m ²	297	295	16,009	12,971	36	29
above 5,000 m ²	217	198	26,426	21,410	50	44

Source: ABRAS/AC Nielsen 2003

Note: These results are based on research conducted with 474 companies that together represent 61 percent of retail gross sales.

To understand the share of major categories carried by an average Brazilian retailer, ABRAS prepared a survey covering 449 companies representing 53 percent of total sector gross sales. The results show that, generally, supermarkets break-out sales into 3 major categories: perishables, food and non food grocery and non food merchandise, accounting for 34.3 percent, 48.1 percent and 15.1 percent of total revenues, respectively. Other items comprise the residual revenue, 2.5 percent. As per food and beverage items, traditionally a local supermarket store is divided into 8 sub-categories: dairy and meat (refrigerated/chilled), fresh meat, produce, bakery and confectionery, frozen foods, seafood, dry grocery, and non-dry grocery.



Source: ABRAS/AC Nielsen 2003

Imported products fit in all food categories; however, there is a tendency among local importers to carry non-perishables as less investment and resources are required. In the last few years, retailers have registered successive declines in the sale of imported goods as a result of the Real devaluation vis-a-vis the Dollar. In

2002, imported products were sold by 140 retail companies, while in 2001, 165 supermarket chains carried imported products. On average, foreign goods represented 1.4 percent of total revenues in 2002, against 1.8 percent in 2001. Although formalized confirmation is needed, it is estimated that the presence of imported products may reach from 10 to 70 percent in a few high-end stores which are mainly concentrated in the Sao Paulo metropolitan area and, at a lower range, in other southeast and southern cities such as Rio de Janeiro, Belo Horizonte and Curitiba. The southeast and south regions of Brazil are the areas where higher per capita incomes are concentrated, and therefore offer more potential for the sale of value-added products. The southeast region accounts for 59.3 percent of total gross retail sales. The Southeast (formed by the states of Sao Paulo, Rio de Janeiro, Espirito Santo and Minas Gerais) and the South (the states of Rio Grande do Sul, Parana and Santa Catarina) combined represent 77.3 percent of the entire sector's gross sales.

Considering this outlook, the Brazilian market still offers opportunities for international companies. According to ATO analysis there are advantages and challenges to consider when planning to enter the local market:

Advantages	Challenges
The U.S. has a large supply of high-end products	Misperception of U.S. food products (U.S. products are frequently viewed as fast-food, junk food, etc)
Price is not always purchase criteria for high-end consumers	Price x value (product positioning and tradition counts)
Brazilian importers willingness to test new products	Sales of small volumes, cargo consolidation, freight costs
Import procedures are becoming more transparent since it is eletronically monitored.	U.S. exporters reluctance, especially for parallel goods, to provide documentation as requested by Brazilian importers.

II. Road Map for Entry

A. Entry Strategy

When approaching the Brazilian market, exporters should be aware that most imported foods and beverages considered FMCG are not price competitive, at an exchange rate as it currently stands (October 2003) of approximately US\$1=R\$2.90. As matters stand, importers estimate that the shelf price of imported products is from 2-4 times the FOB price at origin. In addition, the Brazilian food industry is well developed and becoming moreso between innovative Brazilian processors and the increasing presence of major multinational companies. Products imported from neighboring Mercosul¹ countries enjoy duty-free status, therefore, so, to some extent they can compete with products produced in Brazil. On the other hand, a consumer that is willing to pay additional Reais for a certain product - whose purchasing is relatively price inelastic - does not even question quality. He assumes the quality he gets is the highest, so there are other considerations in the buying process where extrinsic values play a prominent role. U.S. exporters need to evaluate the extent to which their products

¹MERCOSUL - Argentina, Brazil, Paraguay and Uruguay. Chile also has preferential duty status.

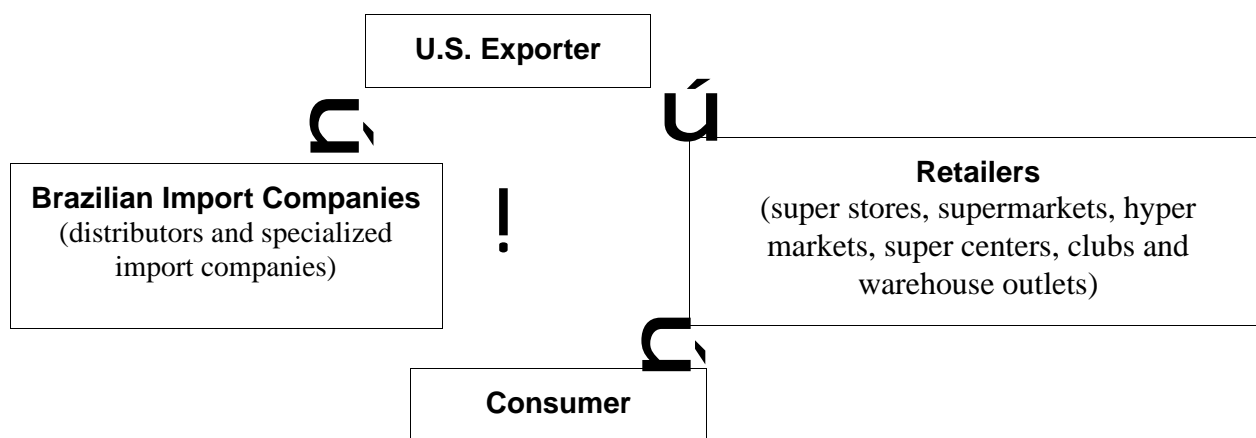
fit into this market reality. Conducting primary research to determine whether the market offers real opportunities is crucial.

Because approximately 80 percent of food distribution takes place through retail stores, developing a relationship with retailers will be more likely to guarantee visibility and countrywide coverage. The commercial power of the retail industry has continuously increased in the recent past as a consequence of the market opening up and in view of the industry's concentration. Retailers are well aware of their importance in the food distribution system and of their advantageous position vis-a-vis suppliers. While retailers exert considerable purchasing power and reach the overwhelming majority of Brazilian households, their purchases of imported products are in keeping with the following criteria: wide selection in small volumes. Non-Brazilian products may be imported directly from the producer or purchased in the local market from a local importer/distributor. U.S. exporters may approach these two potential buyers to further develop a market strategy.

U.S. exporters should always consider the local U.S. Agricultural Trade Office (ATO) as an initial source of information and support. The ATO maintains direct contact with the major players in order to facilitate market entry and is also able to provide assistance on Brazilian legislation and standards for imported goods. Through ATO marketing activities, U.S. companies will profit from market intelligence and can test market products through activities conducted by this office.

B. Market Structure

U.S. consumer-oriented products are distributed in the Brazilian market mainly through specialized importers or retailers. Major retailers are willing to import directly in order to obtain better margins. However, to avoid the costs of cargo consolidation and logistics even leading retailers prefer to buy from local importers/distributors. In this regard, a paradox exists because while avoiding the middle man is a general goal, it only happens if retailers are able to load full containers and keep overhead costs in check. Otherwise, direct imports are made more costly. So, this situation whereby Brazilian buyers are hesitant to purchase full containers and U.S. suppliers are oftentimes unwilling to deal in less than full containers continues to restrict exports of consumer-ready products to Brazil.



C. Company Profiles

Retailer Name	Ownership	Sales (R\$) MIL	Share	# Outlets	Location	Purchasing Agent Type
Companhia Brasileira de Distribuicao (Pao de Acucar, Extra, Se, Compre Bem)	Brazil/ France (Casino is minority shareholder)	11,668	14.6	500	Bahia, Ceara, Distrito Federal, Goias, Minas Gerais, Mato Grosso do Sul, Paraiba, Piaui, Pernambuco, Parana, Rio de Janeiro, Sao Paulo	FPI, LI, DI
Carrefour Com. Ind. Ltda (Carrefour, Champion, Dia Brasil)	France	10,070	12.6	270	Amazonas, Distrito Federal, Espirito Santo, Goias, Minas Gerais, Mato Grosso do Sul, Paraiba, Pernambuco, Piaui, Parana, Rio de Janeiro, Rio Grande do Norte, Rio Grande do Sul, Santa Catarina, Sao Paulo	FPI, LI, DI
BomPreco S/A (BomPreco, Balaio)	Netherlands (Ahold)	3,342	4.2	119	Alagoas, Bahia, Ceara, Maranhao, Paraiba, Pernambuco, Piaui, Rio Grande do Norte, Sergipe	FPI, LI, DI
Sonae Dist. Brasil S/A (Big, Candia, Mercadorama, Nacional, Maxx)	Portugal	3,341	4.2	160	Parana, Rio Grande do Sul, Santa Catarina, Sao Paulo	FPI, LI, DI
Sendas S/A Sendas, BonMarche, Mais em Conta!)	Brazil	2,526	3.2	84	Minas Gerais, Rio de Janeiro	FPI, LI, DI
TOTAL TOP 5		30,950	38.8			
Wal-Mart Brasil Ltda. (Wal Mart, Todo Dia, Sam's Club)	U.S.	1,704	2.1	22	Minas Gerais, Parana, Rio de Janeiro, Sao Paulo	FPI, LI, DI
Cia. Zaffari Com. Ind.	Brazil	1,040	1.3	23	Rio Grande do Sul	FPI, LI, DI
G. Barbosa Com. Ltda.	Netherlands (Ahold)	807	1	32	Bahia, Sergipe	FPI, LI
COOP Coop. de Consumo	Brazil	753	0.9	20	Sao Paulo	FPI, LI
Irmaos Bretas, Filhos e Cia	Brazil	662	0.8	36	Goias, Minas Gerais	FPI, LI
TOTAL TOP 10		35,919	45	1,266		

Source: ABRAS /AC Nielsen 2003

III. Competition

With the international crisis of 1999, the Brazilian Central Bank was forced to abandon its exchange rate policy allowing the Dollar to float. This immediately made imported products more expensive. In this "new" commercial environment, Brazilian importers had to segment consumers more effectively and focus more closely on high-end/value-added products for which there is little or no local competition.

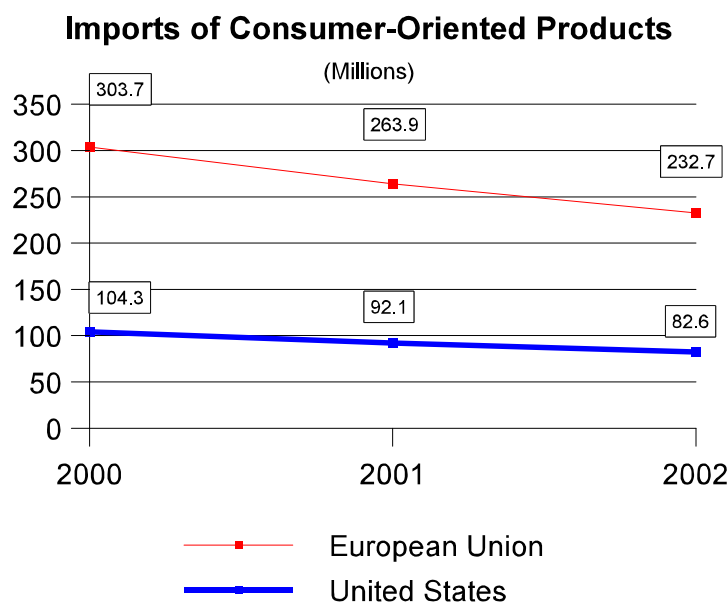
The reality of the Brazilian market is that the country is self-sufficient in agricultural and food production. Indeed, in 2002, Brazil's agricultural trade balance ran a surplus of \$20 billion. The target consumer for imported goods is concentrated in the high-end, for whom the price-value relationship is increasingly important. Competition for U.S. consumer-oriented products comes primarily from Mercosul members and the European Union. Since Mercosul countries benefit from tax free agreements, the direct competition for U.S. suppliers in terms of quality and price moves toward those from the EU. Generally speaking, there are some parallels between Brazilian eating habits and European ones, so EU products enjoy some measure of preference in the local market. However, as has happened worldwide, regional customs have been influenced by global communications and travel, bringing consumers to appreciate what is new, innovative and contemporary.

Brazil's Imports of Consumer-Oriented Products (US\$ Millions)

	2000	Share (%)	2001	Share (%)	2002	Share (%)
Mercosul	1,003.9	63.5	635.5	55.6	649.7	58.5
European Union	303.7	19.2	263.9	23.1	232.7	21.0
U.S.	104.3	6.6	92.1	8.0	82.6	7.4
Others	168.4	10.7	151.7	13.3	145.3	13.1
Total	1,580.3		1,143.2		1,110.3	

Source: Brazilian Secretariat of Foreign Trade (SECEX) - using 6 digit codes from the Harmonized Tariff Schedule (HTS)

Source: Brazilian Secretariat of Foreign Trade (SECEX)



According to the Brazilian Secretariat of Foreign Trade (SECEX), Brazil's imports of consumer-ready foods and beverages have decreased by approximately 30 percent over the last three years, while imports of value-added products from the U.S. and E.U. have declined by 20 and 23 percent, respectively. Nevertheless, as the graph immediately above indicates, the level of EU exports to Brazil is almost

three times U.S. exports. As the Brazilian economy regains strength and if the US\$ does not become stronger, U.S. exporters should see some market expansion and market share gains. And even with the challenging commercial environment that prevails, with the proper strategy, U.S. suppliers can succeed in taking some market share from EU exporters.

IV. Best Product Prospects

A. Products present in the market which have good sales potential

As per U.S. Department of Agriculture analysis, the major consumer-oriented food and beverage categories exported to Brazil are: snack foods (excluding nuts), red meats (fresh/chilled/frozen/prepared/preserved), poultry meat, dairy products, eggs and products, fresh fruit, fresh vegetable, processed fruit & vegetables, fruit and vegetable juices, tree nuts, wine and beer, pet foods (dog and cat food), nursery products and cut flowers. Despite this classification, U.S. sales to the Brazilian market are considered quite fragmented: processed fruit and vegetable represent 15 percent of total sales; snack foods 14 percent; dairy products 10 percent; fruit and vegetable juices 8 percent; pet foods 7 percent; eggs and products 6 percent; red meats 3 percent; poultry meat (processed), fresh fruit, tree nuts, wine and beer, 2 percent each; nursery products and cut flowers 1 percent and others 28 percent (categories under "others" account for less than 1 percent each).

As mentioned above, after the Real devaluation, the Brazilian market became more challenging for imported products. The downward trend led importers to target high-end consumers, who represent a small segment of the market. Our estimate is that the consumer population that can regularly afford and is interested in buying imported products consists of 5-8 million shoppers countrywide. In targeting this audience, importers are focused on a wide variety of high-end goods in small quantities. This scenario complicates business for U.S. exporters and local import companies as U.S. firms, in general, are not oriented/always interested in relatively small volume transactions. Brazilian importers can be conservative and cautious when planning their purchases. Unless Brazilian importers/distributors are bullish about exchange rate stability and overall economic prospects, they tend to undervalue the sales potential of imported goods, a not unexpected *modus operandi* in a turbulent economic environment. Generally speaking, products are likely to be more marketable in Brazil are those that in their original market also target high-end consumers (specialty products) or are well known brands. In addition, for processed products, importers usually require six months shelf-life (minimum).

B. Products not present in significant quantity but which have good sales potential

Health foods and natural and organic products have a limited presence in Brazilian supermarkets. The Brazilian food industry has not directed consistent efforts to the development of this segment, and limited supply means prices of this group of products are elevated and sometimes prohibitive. Small and medium-sized companies are responsible for 70 percent of local organic supply. According to the Institute of Biodynamics (IBD), sales of organic items have expanded rapidly in the last few years, rising on average 40 percent/year. In the local market, prices of health foods and natural and organic items compared to conventional products may range from 40 to 300 percent higher. As the U.S. industry for this segment of goods is much more developed, and prices for these products tend to be closer to those of conventional equivalents, exporters can find opportunities in the Brazilian market as the price for imported products are still competitive.

C. Products not present because face significant barriers

The Brazilian legislation requires all food items to be approved by Ministry of Health or Ministry of Agriculture, Livestock, and Food Supply prior to shipment. In general, there are no barriers towards importation

of food items, nevertheless, there are procedures to be followed. For now, poultry imports are banned (Brazil does not allow the entry of this item per reciprocity) and for products containing ingredients derived from biotech commodities face considerable restrictions (see Gain Report #BR3607). Further information on import regulations and standards may be found in Gain Report #BR3608.

V. Post Contact and Further Information

If you have any question or comments regarding this report or need assistance exporting processed food products to Brazil, please do not hesitate to contact :

U.S. Agricultural Trade Office
AMCONGEN, São Paulo
Unit 3502
APO AA 34030-3502

Alameda Santos, 2224 - cj.11
01418-200 São Paulo, SP, Brazil
Phone: 55-11-3082-3528
Fax: 55-11-3083-7535
E-mail: atosapaulo@usda.gov
Home Page: www.fas.usda.gov

Office of Agricultural Affairs
AMERICAN EMBASSY
Unit 3500
APO AA 34030-3500

Av. das Nações, lote 03
70403-900 Brasília, DF, Brazil
Phone: 55-61-312-7101
Fax: 55-61-312-7659
E-mail: agbrasil@usda.gov
Home Page: www.fas.usda.gov

Other information sources include:

Brazilian Supermarket Association (ABRAS)
Av. Diogenes Ribeiro de Lima, 2872
05083-901 São Paulo, SP, Brazil
Phone: 55-11-3838-4500/Fax: 55-11-3837-9933
Home Page: www.abrasnet.com.br
E-mail: info@abrasnet.com.br

Brazilian Wholesalers and Distributors Association (ABAD)
Av. Nove de Julho, 3147 - 11/ andar
01407-000 São Paulo, SP, Brazil
Phone/Fax: 55-11-3056-7500
Home Page: www.abad.com.br
E-mail: abad@abad.com.br

Brazilian Food Processors' Association (ABIA)
Av. Brigadeiro Faria Lima, 1478 - 11/ andar
01451-913 São Paulo, SP, Brazil
Phone: 55-11-3030-1353/Fax: 55-11-3814-6688
Home Page: www.abia.org.br
E-mail: abia@uol.com.br